

# Successfully Navigating the Single Audit Process

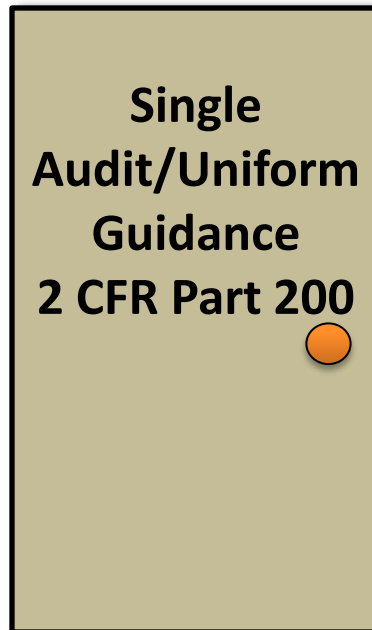


**Monique Booker**  
**SB & Company, LLC**  
**Maryland Governor's Grants Conference**  
**November 9, 2015**



# SUCCESSFULLY NAVIGATING THE SINGLE AUDIT PROCESS

*What's Behind the Single Audit/Uniform Guidance  
Door?*



# Single Audit Overview

- Single Audit is two-fold - Financial and Compliance
- Uses a risk-based audit approach
- Cost effective way to obtain audits because one audit is conducted instead of multiple audits of individual programs



# Goals of the Uniform Guidance

- Streamline for federal awards to ease administrative burden
- Strengthen oversight over federal funds to reduce risk of waste, fraud and abuse
- Focus grant policies on areas that emphasize the achievement of better grant outcomes at a lower cost



## 2CFR 200 – Basic Layout

- 6 Subparts A through F:
  - Subpart A, 200.XX – Acronyms & Definitions
  - Subpart B, 200.1XX – General provisions
  - Subpart C, 200.2XX – Pre Award – Federal
  - Subpart D, 200.3XX – Post Award – Recipients
  - Subpart E, 200.4XX – Cost Principles
  - Subpart F, 200.5XX – Audit



# 2CFR 200 – Basic Layout

- 11 Appendices – I through XI:
  - Indirect Costs Identification and Assignment and Rate Determinations for Higher Education and NFP Organizations – III and IV
  - Public Assistance Cost Allocation Plans VI
  - SF-FAC Appendix X (Data Collection Form)
  - Compliance Supplement Appendix XI



# Effective Date for Audit Requirements

## 200.110(b)

- Subpart F will be effective for Non-Federal Entity Fiscal Years (FY) or biennial periods beginning on or after December 26, 2014.
- First year examples:
  - FY beginning January 1, 2015 and ending December 31, 2015.
  - FY beginning July 1, 2015 and ending June 30, 2016
- Early implementation of Subpart F is not permitted.

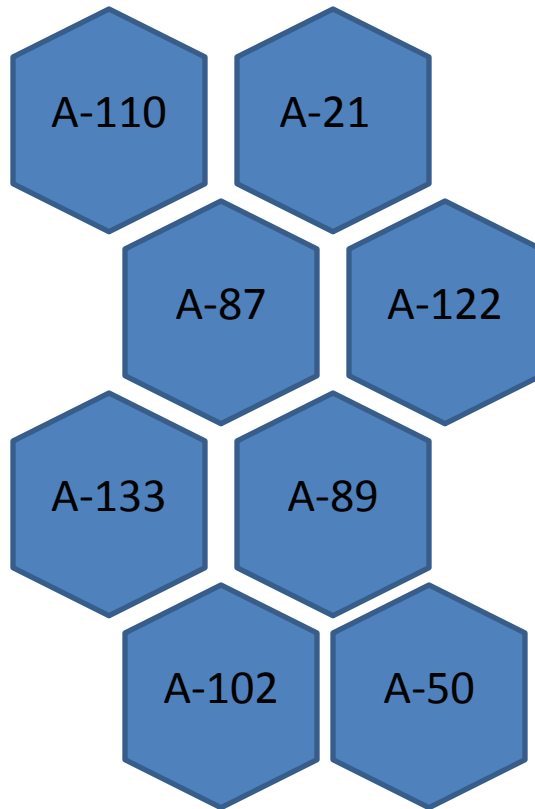


# Audit Threshold

- Increases audit threshold from \$500,000 to \$750,000.
- Maintains oversight over 99.7% of the dollars currently subject to Single Audit and reduces audit burden for approximately 5,000 entities.
- Increase of \$250,000 is in line with the previous threshold increase in 2003.



# Eliminating Duplicative and Conflicting Guidance



Currently: Spread over these eight circulars

Uniform Grant Guidance: All OMB guidance for Federal awards streamlined in Title 2 of CFR, Part 200

Audit Requirements: A-133, A-50 and A-89

Administrative Requirements and Cost Principles: A-102, A-110, A-122, A-21, and A-87

## Implementation/Effective Date

- **Which requirements apply to you if you have grants awarded prior to December 26, 2014 and covers a grant period past December 26, 2014?**





# Implementation/Effective Date

- 200.110, Effective/applicability date
- Federal agencies had to implement the requirements to be effective by December 26, 2014.
- Administrative requirements and cost principles will apply to new awards and to additional funding (funding increments) to existing awards made after Dec 26, 2014.
- Existing Federal awards will continue to be governed by the terms and conditions of the Federal award. **Make sure you review those grant agreements/modification as some Federal Agencies are implementing the amended guidance for periods of availability of the awards after December 26, 2014**

# What Should I Expect?

- **What the Auditors Will Do**

- Understand the programs you manage
- Understand the risk profile of your programs
- Understand your control environment
- Understand your process and compliance controls
- Test your controls
- Test cash receipts and disbursements and cost allocations
- Test specific requirements
- Review reports
- Report on the results of the procedures above
- Get detail by expense function of how grant proceeds were spent



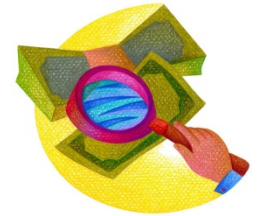
# What Should I Expect?

- **Purpose of the Work**
  - Determine your compliance with program requirements
  - Assess your control and compliance environment
  - Compliance is based on process controls and test of specifications
  - Negative assurance on compliance



# What Do the Auditors Do?

- Review documents
- Interview management and program personnel
- Test transactions and results
- Confirm or verify facts
- Discuss their observations, findings and questions
- Provide a formal exit meeting
- Provide a draft of their findings



# What You Should You Do?

- Prepare Schedule of Federal Expenditures in accordance with Uniform Guidance
- Understand the Federal statues and regulations related to your programs
- Evaluate and monitor noncompliance Federal compliance
- Promptly follow up and take corrective action on audit findings
- Take reasonable measures to protect personally identifiable information
- Provide auditors access to personnel and records in order to perform the single audit



# Single Audit Test of Controls is Built On Foundation of Government Audit

## Single Audit/Uniform Guidance

- Understanding of controls over Federal compliance requirements to support a low assessed level of control risk over major programs
- Required report and schedule of findings

## GAS/Yellow Book

- Added requirement on safeguarding controls and controls over compliance with laws and regulations
- Require report and written significant deficiencies and material weaknesses

## GAAS

- Obtain understanding of internal controls over financial reporting sufficient to plan audit
- Understand controls; whether in place, whether operating
- Report oral or written significant deficiencies and material weaknesses



# Internal Control

A process designed to provide reasonable assurance of achieving the following:

- Effective and efficient operations
- Reliable financial reporting
- Compliance with laws, rules, regulations and guidelines



# Internal Controls

200.303, Internal Controls. For Federal awards  
Non-Federal entities must:

- a. Moved from OMB Circular A-133
- b. Establish and maintain effective internal controls
- c. Comply with Federal statutes, regulations, & terms and conditions
- d. Evaluate and monitor compliance
- e. Take prompt action on audit findings
- f. Safeguard protected personally identifiable information
- g. Best practices resource
  - i. Greenbook
  - ii. COSO Framework



# What Are We Looking for Controls to Do?

- Prevent or detect material noncompliance



# Types of Controls

## **Pervasive Controls -**

Controls around the process, i.e., separation of duties, supervision, hiring, training, skills

## **Specific Controls -**

Preventative -

Stop error from occurring

Detective -

Identify and notify that an error has occurred

## **Monitoring Control -**

Identify when a preventative or detecting control is not working



# Assessment of Risk

- **General Risk Consideration**
  - Experience
  - Length of time
  - Effect of non compliance
  - Routine/non-routine transaction
  - Estimate or judgment



# Assessment of Risk

- **Inherent Risk** - risk that material noncompliance with a major program's compliance requirements could occur, assuming there are no related controls.

- **Factors to consider:**

- Size of the program
- Program maturity
- Complexity
- Extent of contracting
- Other factors
- Subrecipients
- Level of oversight
- Prior audit findings
- Identified as high risk



# Assessment of Risk

- **Control Risk** - risk that material noncompliance that could occur in a major program will not be prevented or detected on a timely basis by the program's internal control.
- **Fraud Risk** - risk that intentional material noncompliance with a major program's compliance requirements could occur.



# Assessment of Risk

- **Detection Risk** - risk that the audit procedures will lead to the conclusions that noncompliance that could be material to a program doesn't exist when in fact it does exist.
  - **Factors to consider:**
    - Inherent risk
    - Control risk
    - Fraud risk





# Areas to Review for Compliance

- A Activities allowed or unallowed
- B Allowable costs/cost principles
- C Cash management
- D **Davis-Bacon Act – no longer in 2015 supplement**
- E Eligibility
- F Equipment and real property management
- G Matching level of effort, earmarking
- H Period of availability of Federal funds
- I Procurement and suspension and debarment
- J Program income
- K **Real property acquisition/relocation assistance – no longer in 2015 supplement**
- L Reporting
- M Subrecipient monitoring
- N Special test and provision



# What Does Compliance Mean?

- Effective management of public funds to maximize outcomes
- The avoidance of fraud, mismanagement, and poor management of Federal funds
- Adherence to laws, rules and regulations
- Check and balances - internal controls
- Stewardship of Federal funds



# Why We Have Problems with Compliance

- Lack of understanding by staff of roles and responsibilities
- Inadequate resources
- Incomplete, outdated or nonexistent policies and procedures
- Inadequate staff training and education



# Why We Have Problems with Compliance

- Inadequate systems
- Lack of documentation and audit trail to support claimed expenses
- Perception that internal control systems are not necessary



# Compliance: Back to the Basics

- Do the right thing...from the start!!!
- Keep policies current with Federal requirements (2 CFR Part 200 – Uniform Guidance)
- Perform risk assessments and implement adequate internal controls



# Compliance: Back to the Basics

- Develop a continuing training program
- Monitor first, audit second

*COMMUNICATE, COMMUNICATE, COMMUNICATE!!!*

*With employees and Federal Agency*

*DOCUMENT, DOCUMENT, DOCUMENT!!!*

*Always remember, if you didn't write it down, it didn't happen*



# Type of Control Weaknesses

<p><b>Significant Deficiency</b></p>	<p><i>Quantitative Deficiencies</i> - Any internal control related findings quantitatively less than the Program Tolerable Noncompliance should be classified as a Significant Deficiency to the program.</p> <p><i>Qualitative Considerations</i> - Documentation of the rationale for any qualitative considerations used in this type of assessment/conclusion should be documented in the Findings Assessment Worksheet and evaluated by AOA.</p>
<p><b>Material Weakness</b></p>	<p><i>Quantitative Considerations</i> - Any internal control related findings quantitatively equal to or greater than the Program Tolerable Noncompliance should be classified as a Material Weakness in the program.</p> <p><i>Qualitative Considerations</i> - There may be instances, based on auditor judgment, where internal control related findings that quantitatively would not be considered material, may be deemed material weaknesses by the auditor based on the nature of the finding. Documentation of the rationale for this type of assessment/conclusion should be documented in the Findings Assessment Worksheet and evaluated by AOA.</p>



# Type of Compliance Finding

<p><b>Material Noncompliance</b></p>	<p><i>Quantitative Considerations</i> - Any noncompliance quantitatively equal to or greater than the Program Tolerable Noncompliance should be classified as Material Noncompliance to the program.</p> <p><i>Qualitative Considerations</i> - There may be instances, based on auditor judgment, where noncompliance that quantitatively would not be considered material, may be deemed material noncompliance by the auditor based on the nature of the finding. Documentation of the rationale for this type of assessment/conclusion should be documented in the Findings Assessment Worksheet and evaluated by AOA.</p>
<p><b>Noncompliance</b></p>	<p><i>Quantitative Considerations</i> - Any internal control related findings quantitatively less than the Program Tolerable Noncompliance should be classified as Noncompliance to the program.</p> <p><i>Qualitative Considerations</i> - Documentation of the rationale for any qualitative considerations used in this type of assessment/conclusion should be documented in the Findings Assessment Worksheet and evaluated by AOA.</p>





# Single Audit Compliance: WHY... Do We Care?

- Findings are reported to Federal government and become public record, distributed to all Federal Agencies through a clearing house.
- Federal and Non-Federal sponsors look at Single Audit as a 'report card' of how we spend their money.



# Single Audit Compliance: WHY... Do We Care?

- It strengthens the relationship of trust that exists between the sponsor and recipient
- It suggests a presence of the stewardship necessary to properly safeguard the Federal Government's investment in programs



# Single Audit Compliance: WHY... Do We Care?

- Negative publicity, may cause harm to reputation and prestige
- May cost \$ millions in payback
- Additional oversight burden



# Uniform Guidance Highlights



# Single Audit Report Submission

## **200.512 Report Submission**

requires publication of Single Audit Reports online with safeguards for protected personally identifiable information and an exception for Indian tribes in order to reduce the administrative burden on non-federal entities associated with transmitting these reports to all interested parties.



# Single Audit Report Submission (continued)

- All auditees must submit the reporting package and the data collection form electronically to the Federal Audit Clearinghouse (FAC) (200.512(d)).
- FAC submission process will be changed to require that submissions be in text-based PDF and unlocked to improve accessibility.
- FAC responsible to make the reports available on a Web site (200.512(g)).



# Single Audit Reports on the Web - PPII

- Auditors and auditees must ensure reports do not include protected personally identifiable information (PPII) (200.82 & 200.512(a)(2)).
- Auditee must sign statement that (200.512(b)(1)):
  - a. Reports do not include PPII.
  - b. Authorizes FAC to make reports publically available on a Web site.



# FAC Repository of Record for Reporting Packages (200.36 & 200.512(b))

- Federal agencies, pass-through entities, and others obtain copies by accessing FAC website.
- Subrecipient only required to submit report to FAC and no longer required to submit to pass-through entity.
- **Pass-through entity is no longer required to retain copy of a subrecipient report, as it is available on the Web.**





# Single Audit Accountable Official

## **200.513 Responsibilities**

requires federal awarding agencies to designate a Senior Accountable Official who will be responsible for overseeing effective use of the single audit process and implementing metrics to evaluate audit follow-up.



# Single Audit Accountable Official (200.513(c)(5))

- Ensures agency effectively uses the single audit process.
- Develop a baseline, metrics, and targets to track, over time, the effectiveness of:
  - a. The agency's process to follow-up on audit findings.
  - b. Single Audits in:
    - i. Improving non-Federal entity accountability for Federal awards.
    - ii. Use by the agency in making award decisions.
- Designate the agency's Key Management Single Audit Liaison.



# Agency Key Management Single Audit Liaison (200.513(c)(6))

- Agency management's point of contact for single audit.
- Promote interagency coordination.
- Oversee training for agency's program management personnel related to the single audit process.
- Promote use of cooperative audit resolution.
- Coordinate agency's audit follow-up to ensure timely corrective action on audit findings.
- Organize cognizant agency for audit follow-up.
- Ensure agency provides annual updates to the Compliance Supplement.
- Support the Senior Audit Accountable Official.



# Cooperative Audit Resolution

**200.513(c)(3)(iii) Responsibilities** encourages Federal awarding agencies to make effective use of cooperative audit resolution practices in order to reduce repeat audit findings.



# Definitions – Subrecipient and Contractor (2 CFR)

- 200.93, **Subrecipient**
- *Subrecipient* means a non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program
- 200.23, **Contractor** is used rather than “vendor” (used in A-133)
- *Contractor* means an entity that receives a contract, legal instrument by which non-federal entity purchases property or services to carry out the project, as defined in 200.22 Contacts
- Look at the nature of the relationship rather than what the agreement is called; See 200.330



# “Should” vs. “Must”

- Throughout, both “should” and “must” are used
- “Must” means “required”
- “Should” indicates best practices or recommended approach



# Conflict of Interest & Mandatory Disclosures

- Two new requirements that strengthen oversight:
  - a. 200.112, Conflict of interest
    - i. The Federal awarding agency must establish conflict of interest policies for their Federal awards
    - ii. The non-Federal entity must disclose **in writing** any potential conflict of interest to the Federal awarding agency (or pass-through entity) in accordance with applicable Federal awarding agency policy
  - b. 200.113, Mandatory disclosures
    - i. Non-Federal entities (and applicants) **must disclose** all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award



# Conflicts of Interest (COI) Basics

- Some things to know about COI
  - a. A conflict of interest (COI) occurs when an individual or organization is involved in multiple interests, one of which could possibly bias the motivation for an act in the other.
  - b. A conflict of interest can exist even if there has been no unethical or improper activity. It is NOT a “no harm no foul” situation. Even the appearance of COI is reason to mitigate.
  - c. For many professionals and professions, it is virtually impossible NOT to have COI from time to time.
  - d. Federal Prime Contractors can be held liable for the COIs of their Subcontractors





# Other Administrative Requirements

## Mandatory Disclosure

- **Mandatory disclosure (200.113)**
  - a. **Recipients and sub-recipients** must disclose, “in a timely manner,” **in writing to the awarding agency or pass-through entity** “all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award.”
  - b. Failure to make “required disclosures, “can result in remedies in 200.338, including withholding of payments, disallowance, and suspension/debarment from future awards.



# Other Administrative Requirements

## Mandatory Disclosure (continued)

- **Mandatory disclosure (200.113)**
  - c. This disclosure requirement is narrower than the so-called “mandatory disclosure” rule under the Federal Acquisition Regulation (FAR).
  - d. 200.113 requires disclosure of violation of Federal *criminal* law – higher standard of proof and intent required
  - e. FAR rule, on the other hand, is triggered if the contractor has “credible evidence” of violation of Federal criminal law, violation of civil False Claims Act, or significant overpayment



# Other Administrative Requirements

## Mandatory Disclosure (continued)

- **Mandatory disclosure – Best practices**
  - a. Set standards and establish procedures to facilitate timely discovery of improper conduct;
  - b. Assign responsibility at a sufficiently high level to ensure business ethics and compliance programs are effectively carried out;
  - c. Conduct periodic reviews to ensure compliance with code of business ethics and conduct;
  - d. Establish an effective internal reporting mechanism (e.g. hotline) which allows for anonymity or confidentiality, by which employees may report suspected instances of improper conduct;
  - e. Define disciplinary action for improper conduct;
  - f. Establish a process to consider making appropriate and timely disclosure, in writing, to applicable agency OIG or pass-through entity.



# Cost Principles

- 2 CFR CHAPTER II,
  - a. Part 200 - - “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards”
  - b. Subpart E - Cost Principles
  - c. Appendices III-VIII: Cost Principles. Reforms to Cost Principles (Circulars A-21, A-87, and A-122)



# Cost Principles (continued)

- 200.414 - Indirect (F&A) Costs
  - a. Federal acceptance of approved IDC rate(s)
  - b. New de minimis rate
  - c. One time extension of up to 4 years

# Cost Principles (continued)

- 200.414 - Indirect (F&A) Costs
  - a. Federal awarding agencies must accept approved negotiated indirect cost rates under 200.414 (c)(1) unless a different rate is required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification as described in paragraph (c)(3) of this section.



# Cost Principles (continued)

- 200.415 - Required Certifications
  - a. Signed by official who can legally bind organization
  - b. Penalties under the False Claims Act



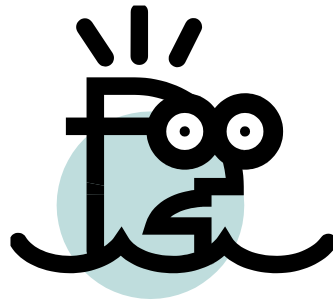
# How Do I Prepare?

- Know your program requirements
- Have documents available
- Understand your procedures
- Understand the specific single audit compliance requirements – Part 4 compliance supplement
- Know the status of prior audit findings and recommendations





# You Will Survive!!!



# Contact Information

**Monique Booker**

**Partner**

**SB & Company, LLC**

200 International Circle, Suite 5500

Hunt Valley, Maryland 21030

(410) 584-1403 (office)

[mbooker@sbandcompany.com](mailto:mbooker@sbandcompany.com)

